Testimony

of

Kendell W. Keith, President

National Grain and Feed Association

on "Farm Policy Concept Paper"

House Committee on Agriculture

July 19, 2001

Chairman Combest and members of the Committee, I am Kendell Keith, President of the National Grain and Feed Association (NGFA). Our members include country elevators, terminals, feed mills, livestock integrators, exporters, grain processors, merchandisers and brokers. We also have 36 state and regional associations affiliated with the NGFA.

Over 70 percent of our members are small businesses involved in cooperative or privately-owned companies that serve local farmer customers. While our members are not generally engaged in farming, they include the first purchasers of farmers' grain and products beyond the farm gate, and they work and live in communities where farming is an important part of the economy.

Because our members are part of the rural economy, they understand how challenging it can be to maintain farm profitability when prices remain relatively low for extended periods. At the same, agriculture needs a farm policy that not only supports farm income, but also supports economic growth in the overall agricultural sector. By supporting general economic growth opportunities, policies can protect the farmer's

economic right to maximize available income from the marketplace, and thereby also support the economic health of rural communities.

Some farm policies encourage economic growth; some policies impede economic progress or may even reverse growth in the agricultural sector as a whole. A brief white paper addressing how various farm program features have affected economic growth in past years is attached to this testimony. I will be referring to charts and graphs from that white paper throughout my comments today. NGFA offers this quantitative information because it provides considerable guidance about the types of programs that are most likely to succeed as well as those programs that pose the greatest risk to the agricultural sector.

The Conservation Reserve Program: The "Last" Remaining U.S. Acreage Idling Program

In 1996 with the passage of the FAIR Act, all annual land idling programs that supposedly were intended for supply control were halted. Congress chose this direction, because the evidence was clear that unilateral U.S. supply control was not raising commodity prices in any sustainable way. When the U.S. tried these programs in the 1980s, the U.S. cut back 40 million acres while the rest of the world planted 32 million more acres. Europe, Canada, South America, Australia, India, and many other exporting countries expanded their production base during this period at the expense of the U.S. government and U.S. agriculture.

The Conservation Reserve Program (CRP), since its beginning in the mid-1980s has had support because it offered benefits that other acreage idling programs did not. Originally it was focused on soil conservation, and minimizing erosion. In the 1996 legislation, the program was directed more at environmental enhancements. However, along with its acknowledged benefits, the CRP remains as the last remaining acreage idling program in U.S. farm policy. As such, it also carries all the negatives of other resource idling schemes, not only costing the taxpayer, but also taxing the economy by restraining growth and the use of productive assets. Any expansion of this program needs to be carefully and objectively evaluated.

The CRP is authorized to expand up to 36.4 million acres under current law. In its present size of 33 million enrolled acres, it contains over 10 percent of all the acreage devoted to annual field crops planted in the U.S. In fact, to put into perspective the current land mass enrolled in CRP, it is roughly equal to 50% of the total acres planted to grain in Canada. The only other major production region of the world that idles a similar amount of acreage is the European Union. There is a reason other countries are not following the U.S. and E.U. "lead" on resource idling efforts. It is not in their economic interest to do so. Resource idling results in an overall monetary economic loss to the implementing country.

Why the CRP Program is Popular

While it may be obvious to members of this panel, it is important to understand why this program has been popular and has developed its own unique political constituency. Active farmers nearing retirement find the CRP program very convenient. They have an opportunity to lease the land to the government for an extended period, and eliminate the management issues of locating and monitoring a tenant operator. Sometimes these landowners leave the rural community, exacerbating the impact on the local economy. Not only are the crops no longer grown on the land, but not even the landowner profits are spent locally.

Other organizations supporting an expansion of the Conservation Reserve Program are game bird interest groups. CRP land provides an excellent habitat for pheasant, quail and other game birds. Flatter land, such as that which could be more readily farmed, is also more desirable for field hunting. With the 33 million acres already devoted to CRP, which in many counties already comprises 25 percent of the available acreage, it would seem that game birds already have a generous amount of acreage to expand their populations.

While the CRP is sizable when compared to current acreage of U.S. field crops (over 10 percent), it is not so significant when considering the total land mass of the U.S., including grassland, cropland, forest-use land, and other areas (see following chart). The 33 million acre CRP, while removing substantial productive farmland, represents less than 1.5 percent of total land area in the U.S. Considering all the forest land, grassland, pasture, ranges, national parks and other broad stretches of open country where wildlife is free to grow and multiply, expansion of CRP for overall wildlife purposes would appear to have little justification.

Major Uses of American Land, 1997 (millions of acres)

Cropland	455
Grassland / Range	580
Forest-use	642
Special Use	352
Miscellaneous	235
Total	2,263

Problems With Concentration of CRP Acres – Particularly in Wheat Country

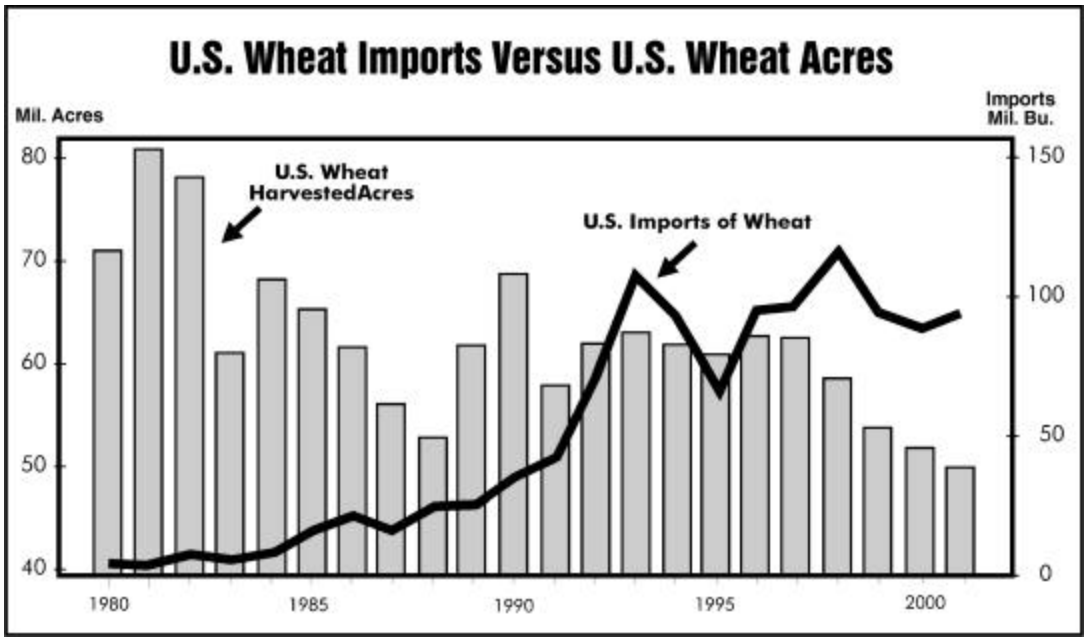
Arguably, the Conservation Reserve Program has had its greatest impact in major wheat states. The following table shows the top ten wheat-producing states, and the acreage in these states that is now in the Conservation Reserve Program. These 10 states, which typically grow about 70 percent of the U.S. wheat crop, now comprise 56.5 percent of total U.S. acreage in the CRP. This acreage idling program, coupled with lower wheat prices, has driven U.S. wheat plantings to their lowest levels since the late 1980s.

CRP Acreage In Top 10 Wheat Producing States (October 2000)

(1,000 Acres)

Colorado	2,206
Idaho	800
Kansas	2,669
Minnesota	1,566
Montana	3,457
Nebraska	1,140
North Dakota	3,333
Oklahoma	1,035
South Dakota	1,436
Washington	1,265
Total CRP: 10 states	18,907
Total CRP in U.S.	33,475
% of CRP in 10 states	**56.5%**

Clearly, this movement away from wheat may reflect the pent-up need for adjustment in wheat production in the U.S. after moving away from government-driven planting decisions. But it is having the effect of attracting increasing levels of wheat imports into the U.S., as the chart below demonstrates. Again, the high value of the dollar today is part of the incentive for these imports, but the correlation of wheat imports with declining U.S. acreage is clear. Lower production in border states like North Dakota and Montana is tending to draw in Canadian hard spring and durum to fill U.S. market gaps.



The movement in U.S. crop production to other crops (such as corn, soybeans, and haying operations) and away from wheat is signaling that the U.S. may not have as much comparative advantage in wheat production as it does in other crops. At the same time, the U.S. should avoid policies that may <u>further</u> erode the U.S. competitive position in <u>any</u> crop. We know that exports will not always be strong enough to keep wheat prices <u>consistently</u> at attractive levels, but if we fail to have policies that position the U.S. to capture exports when they occur, we are damaging our own economic prospects. Exports still comprise 40-50 percent of total wheat utilization from U.S. fields. The U.S. can't afford <u>not</u> to compete for these markets. Simply put, further loss in export markets will mean there will be a lot fewer farmers than we have today.

The adverse economic consequences of large-scale land idling programs can be most acute in those communities where large tracts of productive soil have been taken out of production, in particular those counties that have 25 percent of active cropland idled. The next table lists the number of counties in top agriculture states that have met or exceeded the cap. Poor economic conditions are often a reason for population decreases.

According to the 2000 Census, Harmon County, Oklahoma, one of the six in that state at or above the 25% limit, lost 13 percent of its population between 1990 and 2000. Nebraska's high CRP-acreage counties lost an average of 5.8 percent, despite an 8.4 percent population growth rate statewide; in Montana, counties at or above the acreage limit lost an average of 7.1 percent of their people, while the state as a whole grew by 13 percent.

While the CRP isn't the only reason these counties have seen population decreases, it certainly doesn't help that large numbers of farms are idled. In counties that have high amounts of CRP acreage, and where growth in non-farm economic activity is slow, employment opportunities are scarcer.

Number of Counties in Each State with CRP Acreage at, or in excess of, the cap of 25 percent tillable acreage

State	# of counties
Colorado	14
Idaho	6
Iowa	4
Montana	13
North Dakota	4
Oklahoma	6
Texas	32

Source: USDA

Impacts on Rural Economies

CRP payments go to land owners. Land owners benefit from the CRP, but virtually everyone else dependent on a healthy rural economy loses when land goes from active farmland to idle CRP ground. When there are no crops produced, there are no inputs sold, there are no products to market, there are no employment opportunities in farming or related sectors. The CRP program---particularly where directed at taking out large tracts of productive farming acreage---is a policy that depopulates rural areas at an astounding rate. A University of Minnesota study in 1994 found that the adverse impacts on farm families and rural infrastructure of acreage idling added to the adjustment stress of a consolidating agriculture. That study found that between 1950 and 1990, 30 percent of the total loss in non-farm rural population was attributable solely to acreage-idling programs.

In previous testimony presented before this Committee's Subcommittee on Conservation, Credit, Rural Development and Research on June 6, 2001, NGFA offered a number of specific examples demonstrating the hardships that the CRP program was causing in rural economies in Oklahoma, Texas, the Pacific Northwest and elsewhere.

We will not reiterate those specific examples here, but they do raise an issue concerning the wise use of taxpayer resources. There is much concern expressed by public policy makers about the depressed economic conditions in rural communities, the need to improve infrastructure, and the need to invest more public dollars to enhance

economic performance. An issue that should concern all taxpayers is why should the federal government be spending more money to accelerate rural revitalization while also directly applying the brakes to economic activity with an expansion of the CRP program to idle more productive farmland?

The CRP Impact on Tenant Farmers, Rents, Land Values, and Production Costs

Tenant farmers are among the biggest losers when CRP expansion includes good farmland. Many tenant farmers include beginning farmers that are trying to accumulate enough active farmland to build an economic-sized family farming unit. The average farmer in the U.S. is 57 years old. There is a need to encourage more young farmers to enter the business, but the CRP program directly competes with the tenant farmer for farmland, and tends to raise the cost of the land, creating a cost-price squeeze. The National Farmers Organization in testimony to the House Agriculture Committee on May 3, 2001, stated, "CRP is utilized widely by retiring farmers and investors as an income source that artificially inflates land rental costs and discourages retired farmers from renting land to beginning farmers for a 10-year period."

Concerning land values in the U.S., there is growing concern that the U.S. is creating a financial "bubble" that will create significant adjustment problems in years ahead. The USDA's Economic Research Service has estimated that 25 percent of current land values can be attributed solely to various government programs supporting income of farmers and landowners. An expansion of CRP programs will drive this percentage higher. As it does, the United States will become less competitive, and any withdrawal of government support could mean financial disaster, in particular for those farmers that are in leveraged positions.

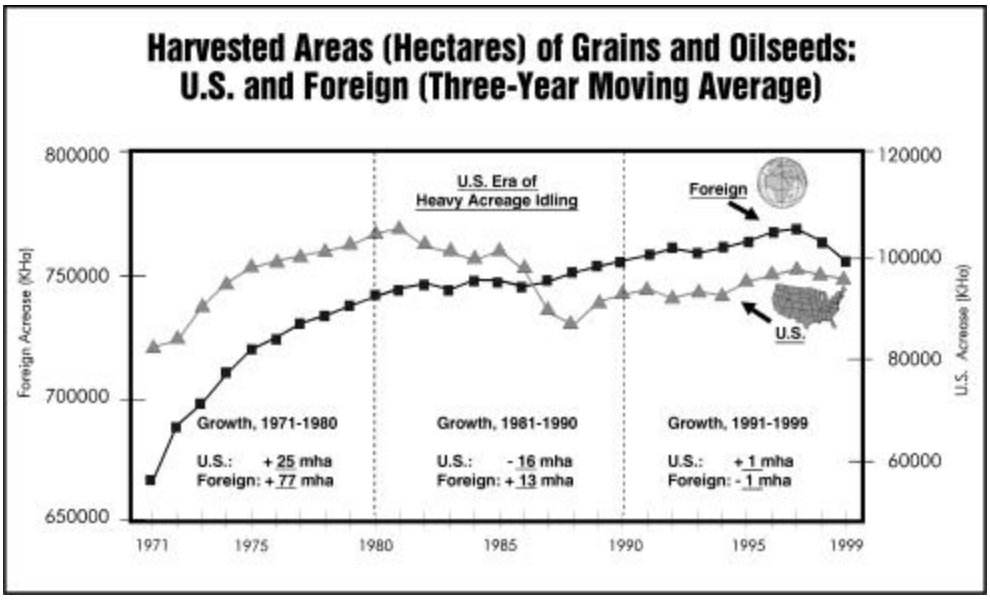
Concerning production costs in farming, any land idling program tends to raise the average cost of production. In addition to the higher land costs driven by a program like CRP that competes with tenant operators, fewer acres to farm mean that other fixed resources (family labor, management, farming equipment) are spread over fewer acres in production. In the attached white paper, an example is given about how a "flexible fallow" program would affect production cost. In that example, the average cost of production for a bushel of wheat is increased from $2.79 to $2.93 per bushel by land idling. For every farming situation, the calculations will vary, but the conclusion is consistent: Land idling programs like the CRP raise average costs, thus detracting from economic efficiency and the ability of the U.S. farmer to compete against increasingly tough international competitors.

The Impact of the CRP on the U.S. Competitive Position

The U.S. in 1996 sent a message around the world when it dropped its annual acreage idling authority. It made a statement to our competitors that the U.S. intended to

compete and forever quit the practice of giving away U.S. market share through misguided supply control efforts.

That 1996 U.S. policy shift had a very beneficial impact on our global competitiveness. The following chart shows harvested oilseed and grains areas for the U.S. and all other countries. It shows the parallel growth that occurred in both the U.S. and foreign countries in the 1970s; and the U.S. pulling back dramatically in the 1980s, while the rest of the world continued planting. Since the mid-1990s, the chart reflects that foreign acreage has begun to decline---the most significant decline in three decades. With a fixed CRP and abandonment of annual set-aside programs, the U.S. essentially regained the competitive position it lost in the first half of the 1990s.



If the U.S. announces an expansion of the CRP with the passage of the next farm bill, it will signal our global competitors that we are retreating from our 1996 position on staying competitive. Foreign competitors will no doubt interpret it as a policy shift toward long-term supply control, regardless of how the U.S. government publicly explains or rationalizes the expansion. Just as the rest of the world is beginning to make some needed downward adjustments in plantings to allow recovery in market prices, this is not the time to change policy direction to expand any acreage idling program---including the CRP.

A Sound, More Justifiable Approach to Conservation Policy

U.S. agriculture needs a conservation program that is worthy of continued support from the taxpayer, and that does not interfere with the U.S. long-term competitive position. Such a conservation policy should:

1. Focus on partial field rather than whole farm or large tract enrollment. Water quality is one of the biggest issues facing agriculture. More investment should be made in filter strips and buffers as opposed to enrollment/idling of large tracts of productive farmland, particularly in counties that already have a high percentage of acreage in the CRP.

2. Additional emphasis on livestock enterprises and confined feeding units. Livestock production, and value-added agricultural product sales, hold promising potential for additional growth. However, we need more attention to be addressed at the environmental consequences of livestock production. We commend the House Agriculture Committee for committing sizable funds in the current proposal to this activity. This is a wise investment of conservation funding.

3. Cap the Conservation Reserve Program at the current 36.4 million acres. Much of the existing CRP has been directed at whole field enrollment. This approach, in particular where 25 percent of the acreage has been taken out of production, has been very damaging to rural economies. At the same time, this whole field emphasis has generated a maximum of benefits in wildlife development with the 33 million acres already enrolled. The CRP record on improving water quality is not as impressive. We have enough acres committed to CRP already. The remaining 3.4 million acres yet to be contracted should be focused on achieving water quality goals, which tend to have broader benefits for the general public.

4. Rather than idling productive assets, future conservation programs need to be designed to conserve while permitting continued use of farmland under sound stewardship practices.

Other Comments on "Farm Bill Concept Paper"

The "Farm Bill Concept Paper" proposes a system of direct payments, loan rates and "target prices" for the major commodities. Our view on the needed immediate adjustment in the soybean loan rate (contained in the attached white paper) is identical to the House proposal, including replacing the decline in the loan rate with a direct compensatory payment so there is no direct loss to the soybean grower. NGFA strongly approves of this part of the proposal. Excessively high loan rates can distort production decisions, damage exports, and trap producers in low-price, excess production treadmills. The attached White Paper goes into greater detail on this subject.

We also concur with the concept that farmers need a reasonable level of income support from the government, but we would strongly favor a fully decoupled approach rather than the proposed "target price" payment. These "guaranteed" prices reflect a 26% increase in wheat income support; a 24% increase in corn income support; and a 10% increase in soybean income support from existing policy (not including emergency spending programs of the last 3 years).

It would seem that these budgeted income support program increases should be adequately generous to have considerable "counter-cyclical" effect, regardless of how the funds are distributed---either through fixed direct payments, similar to current policy, or with a "target price" concept. Farmers, if given the opportunity to defer income receipts through FARMM accounts or other mechanisms, should be able to manage the use of fixed payments to substantially reduce the fluctuations in cash flow and profitability. This form of individually-managed counter-cyclical policy would carry fewer risks, in particular, the risk of further government-induced land price inflation.

While we would prefer that the income support transfer payments to farmers be entirely decoupled in the next farm bill, we would encourage Congress at a minimum to seriously consider making the target price guarantee program less generous and putting more of the funding into direct payments for the following reasons:

1. WTO issues are very important. In our view it is good strategy for the U.S. to stay well under its amber box commitments in an effort to leverage its position on trade negotiations and encourage other countries to minimize trade-distorting policies. Trade remains an extremely important part of an economic growth strategy for U.S. agriculture. Target price payments will be viewed as market and trade distorting; and

2. By fixing price support levels at "target price" levels, the financial exposure to the U.S. Treasury again becomes an open question. One of the major criticisms of pre-1996 farm policy was its unpredictable spending levels. With more reliance on fixed payments, at least the producer knows how much support to count on from government. We know that Congress is trying to avoid "emergency spending" though this approach, but at least with emergency spending, there was a decision process to manage out-of-pocket costs to government.

NGFA supports the plan to increase funding for conservation initiatives other than the CRP. The Environmental Quality Incentives Program, in particular, is crucial if agriculture is to meet increasing environmental regulations. Although the administration recently announced a delay in the implementation of the regulations imposing greater Clean Water Act standards on farmers, ranchers, and agribusinesses, the issue of environmental stewardship of agricultural lands will continue to be a national priority. We strongly support the committee's intention to provide half of all annual EQIP funding to livestock producers.